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SCARROW & DONALDSON
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RW PACKAGING LTD.

FINANCIAL STATEMENTS

DECEMBER 31, 2003

To the Shareholders of
RW Packaging Ltd.

We have audited the financial statements of RW Packaging Ltd. for the year ended December 31, 2003 and the statements of management and required schedule information for the year then ended. These financial statements are the responsibility of the Company's management. The responsibility for the preparation of these financial statements is ours in our capacity as auditors.

We conducted our audit in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

In our opinion, these financial statements present fairly, in all material aspects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Scarrow & Donaldson

Scarrow & Donaldson
Chartered Accountants
Edmonton, Canada

These financial statements, together with the notes thereto, are prepared in accordance with the requirements of the Companies Act (Canada) and the regulations made thereunder. The management is responsible for the preparation and the accuracy of the information contained in these financial statements.

**SCARROW & DONALD LLP
CHARTERED ACCOUNTANTS**

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February 19, 2004

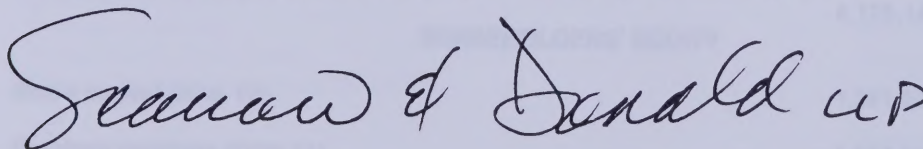
AUDITORS' REPORT

**To the Shareholders of
RW Packaging Ltd.:**

We have audited the balance sheets of RW Packaging Ltd. as at December 31, 2003 and 2002 and the statements of operations and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.



Scarrow & Donald LLP
Chartered Accountants
Winnipeg, Canada



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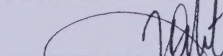
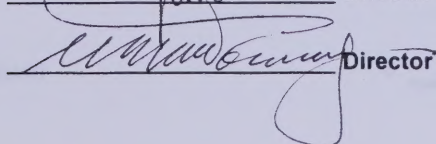
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RW PACKAGING LTD.

BALANCE SHEET

	December 31	
	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets:		
Cash	\$ 32,403	\$ -
Accounts receivable (Note 3)	785,254	776,076
Inventories	960,552	1,092,519
Prepaid expenses and deferred costs	161,028	101,393
Future income taxes (Note 4)	68,100	274,900
	<u>2,007,337</u>	<u>2,244,888</u>
Property, plant and equipment (Note 5)	4,329,094	3,913,759
Trademark rights (Note 6)	101,900	141,345
Future income taxes (Note 4)	<u>676,200</u>	<u>558,800</u>
	<u>\$ 7,114,531</u>	<u>\$ 6,858,792</u>
LIABILITIES		
Current liabilities:		
Bank indebtedness (Note 7)	\$ -	\$ 301,257
Accounts payable	1,211,309	1,218,263
Current portion of long-term debt	368,208	354,467
Current portion of obligation under capital lease	10,199	14,343
	<u>1,589,716</u>	<u>1,888,330</u>
Long-term debt (Note 8)	2,566,014	2,081,139
Obligation under capital lease (Note 9)	<u>19,419</u>	<u>29,618</u>
	4,175,149	3,999,087
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	1,291,535	1,312,022
Retained earnings (Note 11)	<u>1,647,847</u>	<u>1,547,683</u>
	<u>2,939,382</u>	<u>2,859,705</u>
	<u>\$ 7,114,531</u>	<u>\$ 6,858,792</u>

APPROVED BY THE BOARD:


 _____ Director

 _____ Director

RW PACKAGING LTD.

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

	Year ended December 31	
	<u>2003</u>	<u>2002</u>
Sales	\$ 10,135,421	\$ 9,624,786
Cost of goods sold	<u>7,832,352</u>	<u>7,234,568</u>
	2,303,069	2,390,218
Occupancy costs related to leased building	181,814	173,027
Warehouse, selling and administrative	<u>1,419,059</u>	<u>1,411,332</u>
Earnings before interest, amortization and other items (EBITA)	702,196	805,859
Amortization:		
Property, plant and equipment	245,087	236,337
Trademark rights	<u>39,445</u>	<u>39,444</u>
	<u>284,532</u>	<u>275,781</u>
Earnings before interest and other items (EBIT)	417,664	530,078
Interest:		
Bank charges and interest	21,465	42,300
Interest on long-term debt	<u>168,262</u>	<u>148,573</u>
	<u>189,727</u>	<u>190,873</u>
Earnings before other items	227,937	339,205
Waste disposal	<u>15,960</u>	<u>-</u>
Earnings for the year before tax	211,977	339,205
Income taxes (Note 4):		
Current income tax	160,700	194,900
Future income tax benefit	(79,800)	(90,100)
Change in estimate of future tax benefit	<u>8,500</u>	<u>12,800</u>
	<u>89,400</u>	<u>117,600</u>
Net earnings for the year	122,577	221,605
Retained earnings, beginning of year as restated (Note 2)	1,547,683	1,379,287
Excess consideration on shares purchased for cancellation	<u>(22,413)</u>	<u>(53,209)</u>
Retained earnings, end of year	\$ <u><u>1,647,847</u></u>	\$ <u><u>1,547,683</u></u>
Earnings per share - basic and diluted	\$ <u><u>0.02</u></u>	\$ <u><u>0.03</u></u>

RW PACKAGING LTD.

STATEMENT OF CASH FLOW

	Year ended December 31	
	<u>2003</u>	<u>2002</u>
Funds provided by (used in):		
Operating activities-		
Net earnings for the period	\$ 122,577	\$ 221,605
Non-cash items:		
Amortization	284,532	275,781
Future income taxes	89,400	117,600
Loss on disposal of property, plant and equipment	<u>-</u>	<u>112</u>
Cash flow from operations before change in working capital	496,509	615,098
Change in working capital:		
Accounts receivable	(9,178)	334,467
Inventories	131,967	2,217
Prepaid expenses	(59,635)	8,086
Accounts payable	<u>(6,954)</u>	<u>(172,944)</u>
	<u>56,200</u>	<u>171,826</u>
Cash flow from operations	552,709	786,924
Investing activities-		
Purchase of property plant and equipment	(370,464)	(169,189)
Proceeds on disposal of property plant and equipment	<u>-</u>	<u>100</u>
	(370,464)	(169,089)
Financing activities-		
Repayment of long-term debt	(2,162,342)	(966,227)
Repayment of obligation under capital lease	(14,343)	(13,322)
Proceeds of long-term debt	2,371,000	1,000,000
Net change in line of credit	(310,000)	-
Stock options exercised	-	49,720
Purchase of shares for cancellation	<u>(42,900)</u>	<u>(100,610)</u>
	<u>(158,585)</u>	<u>(30,439)</u>
Change in cash	23,660	587,396
Cash, beginning of year	<u>8,743</u>	<u>(578,653)</u>
Cash, end of year (Note 7)	\$ <u><u>32,403</u></u>	\$ <u><u>8,743</u></u>
Interest paid	\$ <u><u>(189,727)</u></u>	\$ <u><u>(190,873)</u></u>
Income taxes paid	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

1. Summary of significant accounting policies:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies.

a) Accounting estimates-

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

b) Financial instruments-

Except for long-term debt, management has estimated that the fair value of all financial instruments approximates their cost because of the short maturity of those instruments. The carrying amount of long-term debt approximates fair value because interest rates are close to market rates. Fair value is an estimate of the amount at which items might be exchanged in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair value should not be interpreted as an amount that could be realized in immediate settlement of the instruments. Fair value is estimated based on market information available to the Company. If such information is not available, fair value is estimated using assumptions about the amount and timing of future cash flows and using discount rates that reflect credit risk. The estimate of fair value at year-end may not represent fair values at any other date. The assumptions and methods used significantly affect fair value. The determination of fair value is also affected by the use of judgement and by uncertainty. Changes in the interest rate environment and investment risk in one or more of the markets in which the underlying loan security is located may result in significant changes in fair values and are among the primary causes of changes in value.

c) Inventory-

Inventory is valued at the lower of average cost and net realizable value for finished goods and the lower of average cost and replacement cost for raw materials.

d) Property, plant and equipment, and intangible assets-

Property, plant and equipment and intangible assets are recorded at cost. Property, plant and equipment and intangible assets with finite lives are amortized over their estimated useful lives. This requires estimation of the useful life of the asset and its salvage and residual value. At the end of each accounting period management considers whether there has been a permanent impairment in the value of property, plant and equipment and intangible assets by estimating the net recoverable amount of the unamortized portion. As is true for all accounting estimates, it is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. Should an adjustment become necessary, it would be reported in earnings in the period in which it became known. The Company provides for amortization on fixed assets so as to write off the cost of the assets over their estimated useful lives as follows:

Building	- 40 years straight line
Equipment	- 5 - 15 years straight line and declining balance
Leasehold improvements	- straight line over the life of the leases

Trademark rights are recorded at cost and are amortized using the straight-line method over 6 years.

1. Summary of significant accounting policies (cont'd):**e) Translation of foreign currencies-**

Monetary assets and liabilities of the Company's Canadian operations denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Other assets and liabilities and items affecting earnings are converted at rates of exchange in effect at the date of the transaction.

f) Earnings per common share-

The Company determines basic earnings per common share based on the weighted average number of outstanding common shares for the year. Fully diluted earnings per share reflects the effect of potential conversion of debt and exercises of warrants and options on earnings per share that would be materially dilutive.

g) Income taxes-

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

h) Stock-based compensation plans-

No compensation expense is recognized for stock-based compensation plans when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock options cancelled is charged to retained earnings.

2. Change in accounting policies:

During the year the policy for accounting for a leasing arrangement was changed. A lease that had previously been accounted for as an operating lease is now accounted for as a capital lease. The adjustment was applied retroactively with restatement of comparative figures. The balance of retained earnings as at January 1, 2003 has been increased by \$7,464 representing the cumulative amount by which prior year earnings have been understated.

During the year the policies for presentation of certain labour costs and occupancy costs related to a leased building were changed. Certain labour costs have been reclassified from warehouse, selling and administration to cost of goods sold. Occupancy costs related to a leased building previously included in warehouse, selling and administration have been separately presented.

Previously reported earnings for the year ended December 31, 2002 were understated by \$1,350 and have been restated as follows:

	2002 As previously reported	Adjustment	2002 As restated
Cost of goods sold	\$ 7,001,525	\$ 233,043	\$ 7,234,568
Warehouse, selling and administration	1,822,695	(411,363)	1,411,332
Occupancy costs related to leased building	-	173,027	173,027
Amortization of property, plant and equipment	233,812	2,525	236,337
Interest on long-term debt	147,955	618	148,573
Current income tax	193,900	1,000	194,900
Future income tax benefit	(89,900)	(200)	90,100
Total		<u>\$ (1,350)</u>	

The following balance sheet accounts were restated as at December 31, 2002:

	2002 As previously reported	Adjustment	2002 As restated
Property, plant and equipment-			
- equipment	\$ 4,077,399	\$ 25,250	\$ 4,102,649
- accumulated amortization, equipment	(1,951,459)	(7,575)	(1,959,034)
Obligation under capital lease-			
- current portion	9,315	5,028	14,343
- long-term portion	28,735	883	29,618
Future income taxes	563,100	(4,300)	558,800

Earnings for the years prior to January 1, 2002 were understated by \$6,114, and the balance of retained earnings at that date has been adjusted accordingly.

During the year the policy for presentation of the cash flow statement was changed. The Company adopted retroactively with restatement, the indirect method of presentation.

3. Accounts receivable:

The Company has adopted credit policies to reduce credit risk on accounts receivable from customers, which may include the analysis of the financial position of customers and review of credit limits. The Company also reviews new customer credit history before extending credit and reviews existing customer credit performance. The Company sometimes requires bank letters of credit or credit insurance. The Company does not have a significant exposure to any individual customer or counter-party. An allowance for doubtful accounts is established based upon factors surrounding credit risk of specific customers, historical trends and other information.

4. Income taxes:

The balance of future income taxes consists of losses available to be carried forward for tax purposes to the extent that they are likely to be realized, undepreciated capital cost in excess of net book value arising from the difference between the Company's amortization rates and those prescribed for income tax purposes, and amounts deductible for tax purposes in future periods. Should the actual amount or value of losses used differ from this estimate, any change will be accounted for in the period in which those amounts become known.

	December 31	
	<u>2003</u>	<u>2002</u>
Losses carried forward	\$ 57,100	\$ 248,400
Tax cost in excess of book value	628,700	538,300
Amounts deductible in future periods	<u>58,500</u>	<u>47,000</u>
Future income tax asset	<u>\$ 744,300</u>	<u>\$ 833,700</u>

\$57,100 (2002 - \$248,400) of the current portion of the future income tax asset relates to losses available to be carried forward. \$11,000 (2002 - \$26,500) of the current future income tax asset relates to amounts deductible for tax purposes in future periods.

\$628,700 (2002 - \$538,300) of the long term future income tax asset relates to the undepreciated capital cost in excess of net book value. \$47,500 (2002 - \$20,500) of the future income tax asset relates to amounts deductible for tax purposes in future periods.

The preferential manufacturing and processing statutory tax rate for the current year would be 35.2% (2002 - 37.1%). Accordingly, the current tax provision has been accrued at this rate and is affected by items not deductible for tax purposes. The statutory rate differs from the effective rate due to various non-deductible items.

In 2003, the Company recognized a loss of \$8,500 due to a change in the expected rate.

In 2002, the Company recognized a loss due to a change in estimate of the amounts deductible for tax purposes in future periods and income tax losses that are more likely than not to be realized. A loss of \$12,800 has been recorded as part of the 2002 year tax provision.

5. **Property, plant and equipment:**

	<u>December 31</u>			
	<u>2003</u>		<u>2002</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Land	\$ 448,393	\$ -	\$ 178,249	\$ -
Building	2,004,262	124,873	1,664,979	83,249
Equipment	3,933,644	1,932,332	4,102,649	1,959,034
Leasehold improvements	-	-	94,328	84,163
	<u>\$ 6,386,299</u>	<u>\$ 2,057,205</u>	<u>\$ 6,040,205</u>	<u>\$ 2,126,446</u>
Net book value	<u>\$4,329,094</u>		<u>\$3,913,759</u>	

6. **Trademark rights:**

Trademark rights include costs incurred to acquire a competitor's trademark and customer lists.

	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
Trademark rights, beginning of year	\$ 141,345	\$ 180,789
Amortization	<u>(39,445)</u>	<u>(39,444)</u>
Trademark rights, end of year	<u>\$ 101,900</u>	<u>\$ 141,345</u>

7. **Bank indebtedness:**

The Company has an operating line of credit with TD Bank for up to \$750,000 with interest at prime plus 0.75%. Security for all TD Bank debt is indicated in Note 8.

	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
Line of credit	\$ -	\$ (310,000)
Cash (bank balance, less outstanding cheques)	<u>32,403</u>	<u>8,743</u>
	<u>\$ 32,403</u>	<u>\$ (301,257)</u>

In 2002, the Company had an operating line of credit with the National Bank of Canada for \$1,250,000 with interest at bank prime plus 0.5%. Security for all National Bank of Canada debt is indicated in Note 8.

8. Notes payable and long-term debt:

	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
Term loan, TD Bank, repayable in monthly instalments of \$15,767 plus interest at prime plus 0.5% to 2.5%, due August, 2008.	\$ 882,932	\$ -
Mortgage, TD Bank, repayable in monthly instalments of \$7,917 plus interest at prime plus 0.5% to 2.5%, due August 2008.	1,393,332	-
Capital asset obligation to be funded out of mortgage with TD Bank, which can be drawn to a maximum of \$1,125,000. The first advance was drawn February 2004 for \$375,000. The loan bears interest at prime plus 0.5% to 2.5%.	289,958	-
Subordinated debt, Roynat Inc., repayable in monthly installments of \$5,000 plus interest at Roynat's floating base rate plus 3% plus a monthly administration fee of \$1,700. Monthly principal payments increase by \$1,000 every year until due, August 2007. Secured by a floating charge on all assets subject to prior charges in favour of existing secured lenders, assignment of insurance of \$250,000 on one officer.	368,000	440,000
Term loan, National Bank of Canada, repayable in monthly instalments of \$6,872 plus interest at the Canadian prime rate of the bank plus 0.75%, due February 2016.	-	1,078,939
Term loan, National Bank of Canada, repayable in monthly instalments of \$16,667 plus interest at the Canadian prime rate of the bank plus 1.0%, due July 2007.	-	916,667
	2,934,222	2,435,606
Less: Current portion	(368,208)	(354,467)
Long-term debt	<u>\$ 2,566,014</u>	<u>\$ 2,081,139</u>

All TD Bank debt is registered in the first position. All TD Bank indebtedness is secured by a general security agreement on all equipment, collateral mortgage in the amount of \$1,900,000 on 200 Omand's Creek Blvd., Winnipeg, Manitoba, a collateral mortgage in the amount of \$1,500,000 on 10 Cheigny Street, St. Albert, Alberta, assignment of fire insurance, and assignment of life insurance for \$500,000 on one officer.

All National Bank debt was registered in the first position. All National Bank indebtedness was secured by first rank assignment of accounts receivable, inventory and equipment, assignment of insurance on assets, assignment of keyman life insurance for \$250,000 on each of two officers, chattel mortgages on specific equipment, and collateral mortgage in the amount of \$1,237,000 on 200 Omand's Creek Blvd., Winnipeg, Manitoba.

The TD mortgage, which can be drawn to a maximum of \$1,125,000, is to finance the construction of a building with an agreed contract price of \$1,250,000.

9. Obligation under capital lease:

The Company has an obligation under capital leases for equipment. The leases expire in 2004 and 2007 as follows:

2004	\$	10,199
2005		9,316
2006		9,316
2007		<u>787</u>
		29,618
Less: Current portion		<u>10,199</u>
Obligation under capital lease	\$	<u><u>19,419</u></u>

10. Share capital:

	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
Authorized-		
100,000,000 common shares		
Issued-		
6,934,398 common shares (2002 - 7,044,398)	\$ <u>1,291,535</u>	\$ <u>1,312,022</u>

	<u>2003</u>		<u>2002</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Opening balances	7,044,398	\$ 1,312,022	7,072,898	\$ 1,309,703
Stock options exercised	-	-	226,000	49,720
Shares purchased for cancellation	<u>(110,000)</u>	<u>(20,487)</u>	<u>(254,500)</u>	<u>(47,401)</u>
	<u>6,934,398</u>	<u>\$ 1,291,535</u>	<u>7,044,398</u>	<u>\$ 1,312,022</u>

During the year, the Company purchased 110,000 shares for cancellation for consideration of \$42,900. The shares had a stated value of \$20,487, resulting in a charge to retained earnings of \$22,413.

During the year ended December 31, 2002, the Company purchased 254,500 shares for cancellation for consideration of \$100,610. The shares had a stated value of \$47,401, resulting in a charge to retained earnings of \$53,209.

Fixed stock option plans-

A summary of the status of the Company's plan as at December 31, 2003 and changes during the year then ended is presented below:

	<u>December 31, 2003</u>		<u>December 31, 2002</u>	
	<u>Shares</u>	<u>Weighted average exercise price</u>	<u>Shares</u>	<u>Weighted average exercise price</u>
Outstanding at beginning of period	-	\$ -	606,000	\$ 0.54
Exercised	-	-	(226,000)	0.22
Expired	<u>-</u>	<u>-</u>	<u>(380,000)</u>	<u>0.73</u>
Options outstanding and exercisable at end of year	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>

11. Retained earnings:

Contributed surplus arose in 1993 when the Company purchased the assets of a liquid and powder filling business. The Company assigned the value of the consideration given by way of issuing 889,990 common shares to contributed surplus. The original amount of contributed surplus was \$1,749,737. In 1995, part of the business acquired in 1993 was disposed of and \$908,606 of contributed surplus, being the contributed surplus which related to the assets disposed of, was transferred against the deficit. On May 19, 1999, the shareholders approved the elimination of the balance of the contributed surplus of \$841,131 along with the elimination of the deficit of \$4,582,908.

12. Foreign currency:

The accounts noted below include amounts denominated in United States currency. The Canadian dollar equivalent is shown below:

	December 31	
	<u>2003</u>	<u>2002</u>
Cash	\$ <u>901</u>	\$ <u>8,343</u>
Accounts receivable	\$ <u>77,686</u>	\$ <u>77,914</u>
Accounts payable	\$ <u>4,020</u>	\$ <u>4,954</u>

The amount of foreign exchange losses included in the financial statements is approximately \$20,700 (2002 - gain of \$300).

13. Lease obligations:

The Company has lease commitments as follows:

2004	36,424
2005	24,736
2006	15,626
2007	<u>1,457</u>
	\$ <u>78,243</u>

14. Geographic information:

	December 31	
	<u>2003</u>	<u>2002</u>
Sales-		
Canada	\$ 8,415,254	\$ 7,616,106
United States	<u>1,720,167</u>	<u>2,008,680</u>
	\$ <u>10,135,421</u>	\$ <u>9,624,786</u>

15. Major customers:

Two customers represent approximately \$1,561,600 and \$1,254,600 of the Company's total revenue for 2003.

Two customers represent approximately \$1,355,100 and \$1,346,400 of the Company's total revenues for 2002.

16. Related party transactions:

Included in accounts receivable is a note receivable from one shareholder for \$10,000 (2002 - two shareholders totalling \$30,000).

Included in accounts payable are obligations payable to a shareholder for \$11,975 (2002 - two shareholders totalling \$32,659).

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RW PACKAGING LTD.

FINANCIAL STATEMENTS

DECEMBER 31, 2004

SCARROW & DONALD LLP
CHARTERED ACCOUNTANTS

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February 18, 2005

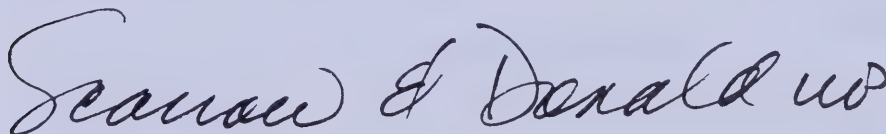
AUDITORS' REPORT

**To the Shareholders of
RW Packaging Ltd.:**

We have audited the balance sheets of RW Packaging Ltd. as at December 31, 2004 and 2003 and the statements of operations and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.



Scarrow & Donald LLP
Chartered Accountants
Winnipeg, Canada

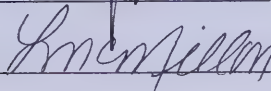
For this communication, together with the work done to prepare this communication and for the opinions we have formed, if any, we accept and assume responsibility only to the addressee of this communication, as specified in our letter of engagement.

RW PACKAGING LTD.

BALANCE SHEET

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets:		
Cash	\$ -	\$ 32,403
Accounts receivable (Note 2)	713,936	785,254
Inventories	1,132,641	960,552
Prepaid expenses	58,605	94,808
Future income taxes (Note 3)	<u>263,300</u>	<u>68,100</u>
	2,168,482	1,941,117
Property, plant and equipment (Note 4)	5,464,242	4,329,094
Trademark rights (Note 5)	81,328	101,900
Deferred charges (Note 6)	55,052	66,220
Future income taxes (Note 3)	<u>501,600</u>	<u>676,200</u>
	<u>\$ 8,270,704</u>	<u>\$ 7,114,531</u>
LIABILITIES		
Current liabilities:		
Bank indebtedness (Note 7)	\$ 364,632	\$ -
Accounts payable	1,412,304	1,211,309
Current portion of long-term debt	411,216	368,208
Current portion of obligation under capital lease	<u>9,316</u>	<u>10,199</u>
	2,197,468	1,589,716
Long-term debt (Note 8)	2,965,421	2,566,014
Obligation under capital lease (Note 9)	<u>10,103</u>	<u>19,419</u>
	5,172,992	4,175,149
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	1,291,535	1,291,535
Retained earnings	<u>1,806,177</u>	<u>1,647,847</u>
	<u>3,097,712</u>	<u>2,939,382</u>
	<u>\$ 8,270,704</u>	<u>\$ 7,114,531</u>

APPROVED BY THE BOARD:


 _____ Director

 _____ Director

RW PACKAGING LTD.

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

	Year ended December 31	
	<u>2004</u>	<u>2003</u>
Sales	\$ 9,598,584	\$ 10,135,421
Cost of goods sold	<u>7,469,353</u>	<u>7,832,352</u>
	2,129,231	2,303,069
Occupancy costs related to leased building	62,037	181,814
Warehouse, selling and administrative	<u>1,363,861</u>	<u>1,407,971</u>
Earnings before interest, amortization and other items (EBITA)	703,333	713,284
Amortization:		
Property, plant and equipment	199,045	245,087
Trademark rights	20,572	39,445
Deferred charges	<u>21,851</u>	<u>15,827</u>
	<u>241,468</u>	<u>300,359</u>
Earnings before interest and other items (EBIT)	461,865	412,925
Interest:		
Bank charges and interest	22,073	16,726
Interest on long-term debt	<u>191,382</u>	<u>168,262</u>
	<u>213,455</u>	<u>184,988</u>
Earnings before other items	248,410	227,937
Relocation and other disposition expenses	110,680	-
Waste disposal	<u>-</u>	<u>15,960</u>
Earnings for the year before income taxes	137,730	211,977
Income taxes (Note 3):		
Current income tax	-	160,700
Future income tax benefit	50,100	(79,800)
Change in estimate of future tax benefit	<u>(70,700)</u>	<u>8,500</u>
	<u>(20,600)</u>	<u>89,400</u>
Net earnings for the year	158,330	122,577
Retained earnings, beginning of year	1,647,847	1,547,683
Excess consideration on shares purchased for cancellation	<u>-</u>	<u>(22,413)</u>
Retained earnings, end of year	\$ <u><u>1,806,177</u></u>	\$ <u><u>1,647,847</u></u>
Earnings per share - basic and diluted	\$ <u><u>0.02</u></u>	\$ <u><u>0.02</u></u>

RW PACKAGING LTD.

STATEMENT OF CASH FLOW

	Year ended December 31	
	<u>2004</u>	<u>2003</u>
Funds provided by (used in):		
Operating activities-		
Net earnings for the period	\$ 158,330	\$ 122,577
Non-cash items:		
Amortization	241,468	300,359
Future income taxes	(20,600)	89,400
Additions to deferred charges	(10,683)	(53,767)
Proceeds on disposal of property, plant and equipment	<u>(16,712)</u>	<u>-</u>
Cash flow from operations before change in working capital	351,803	458,569
Change in working capital:		
Accounts receivable	71,318	(9,178)
Inventories	(172,089)	131,967
Prepaid expenses	36,203	(21,695)
Accounts payable	<u>200,995</u>	<u>(6,954)</u>
	<u>136,427</u>	<u>94,140</u>
	<u>488,230</u>	<u>552,709</u>
Investing activities-		
Purchase of property, plant and equipment	(1,624,151)	(370,464)
Proceeds on disposal of property, plant and equipment	<u>16,712</u>	<u>-</u>
	<u>(1,607,439)</u>	<u>(370,464)</u>
Financing activities-		
Repayment of long-term debt	(392,627)	(2,162,342)
Repayment of obligation under capital lease	(10,199)	(14,343)
Proceeds of long-term debt	1,125,000	2,371,000
Net change in line of credit	340,000	(310,000)
Purchase of shares for cancellation	<u>-</u>	<u>(42,900)</u>
	<u>1,062,174</u>	<u>(158,585)</u>
Change in cash	(57,035)	23,660
Cash, beginning of year	<u>32,403</u>	<u>8,743</u>
Cash, end of year (Note 7)	\$ <u><u>(24,632)</u></u>	\$ <u><u>32,403</u></u>
 Interest paid	\$ <u><u>(213,455)</u></u>	\$ <u><u>(184,988)</u></u>
Income taxes paid	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

RW PACKAGING LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

1. Summary of significant accounting policies:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies.

a) Accounting estimates-

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

b) Financial instruments-

Except for long-term debt, management has estimated that the fair value of all financial instruments approximates their cost because of the short maturity of those instruments. The carrying amount of long-term debt approximates fair value because interest rates are close to market rates. Fair value is an estimate of the amount at which items might be exchanged in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair value should not be interpreted as an amount that could be realized in immediate settlement of the instruments. Fair value is estimated based on market information available to the Company. If such information is not available, fair value is estimated using assumptions about the amount and timing of future cash flows and using discount rates that reflect credit risk. The estimate of fair value at year-end may not represent fair values at any other date. The assumptions and methods used significantly affect fair value. The determination of fair value is also affected by the use of judgement and by uncertainty. Changes in the interest rate environment and investment risk in one or more of the markets in which the underlying loan security is located may result in significant changes in fair values and are among the primary causes of changes in value.

c) Inventory-

Inventory is valued at the lower of average cost and net realizable value for finished goods and the lower of average cost and replacement cost for raw materials.

d) Property, plant and equipment, and intangible assets-

Property, plant and equipment and intangible assets are recorded at cost. Property, plant and equipment and intangible assets with finite lives are amortized over their estimated useful lives. This requires estimation of the useful life of the asset and its salvage and residual value. At the end of each accounting period management considers whether there has been a permanent impairment in the value of property, plant and equipment and intangible assets by estimating the net recoverable amount of the unamortized portion. As is true for all accounting estimates, it is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. Should an adjustment become necessary, it would be reported in earnings in the period in which it became known. The Company provides for amortization on fixed assets so as to write off the cost of the assets over their estimated useful lives as follows:

Building	- 40 years straight line
Equipment	- 5 - 15 years straight line and declining balance
Leasehold improvements	- straight line over the life of the leases

Trademark rights are recorded at cost and are amortized using the straight-line method over 8½ years.

1. Summary of significant accounting policies (cont'd):**e) Deferred charges-**

The costs of obtaining bank and other debt financing are deferred and amortized on a straight line basis over the effective life of the debt to which they relate. The costs of label artwork is deferred and amortized on a straight line basis over a period of 3 years.

f) Revenue recognition-

Revenue is recognized when title passes to the customer and the collectability of proceeds is reasonably assured.

g) Translation of foreign currencies-

Monetary assets and liabilities of the Company's Canadian operations denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Other assets and liabilities and items affecting earnings are converted at rates of exchange in effect at the date of the transaction.

h) Earnings per common share-

The Company determines basic earnings per common share based on the weighted average number of outstanding common shares for the year. Fully diluted earnings per share reflects the effect of potential conversion of debt and exercises of warrants and options on earnings per share that would be materially dilutive.

i) Income taxes-

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

2. Accounts receivable:

The Company has adopted credit policies to reduce credit risk on accounts receivable from customers, which may include the analysis of the financial position of customers and review of credit limits. The Company also reviews new customer credit history before extending credit and reviews existing customer credit performance. The Company sometimes requires bank letters of credit or credit insurance. The Company does not have a significant exposure to any individual customer or counter-party. An allowance for doubtful accounts is established based upon factors surrounding credit risk of specific customers, historical trends and other information.

3. Income taxes:

The balance of future income taxes consists of losses available to be carried forward for tax purposes to the extent that they are likely to be realized, undepreciated capital cost in excess of net book value arising from the difference between the Company's amortization rates and those prescribed for income tax purposes, and amounts deductible for tax purposes in future periods. Should the actual amount or value of losses used differ from this estimate, any change will be accounted for in the period in which those amounts become known.

The preferential manufacturing and processing statutory tax rate for the current year would be 36.4% (2003 - 35.2%). Accordingly, the current and future tax provision has been accrued at this rate and is affected by items not deductible for tax purposes. The statutory rate differs from the effective rate due to various non-deductible items.

In 2004, the Company recognized a gain of \$70,700 due to a change in balances carried forward and a change in the expected rate (2003 - loss of \$8,500).

4. Property, plant and equipment:

	<u>December 31</u>			
	<u>2004</u>		<u>2003</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Land	\$ 448,393	\$ -	\$ 448,393	\$ -
Building	3,180,745	166,650	2,004,262	124,873
Equipment	<u>4,091,354</u>	<u>2,089,600</u>	<u>3,933,644</u>	<u>1,932,332</u>
	<u>\$ 7,720,492</u>	<u>\$ 2,256,250</u>	<u>\$ 6,386,299</u>	<u>\$ 2,057,205</u>
Net book value	<u>\$5,464,242</u>		<u>\$4,329,094</u>	

5. Trademark rights:

Trademark rights include costs incurred to acquire a competitor's trademark and customer lists. Trademark rights result from a \$236,670 acquisition July 2000.

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Trademark rights, beginning of year	\$ 101,900	\$ 141,345
Amortization	<u>(20,572)</u>	<u>(39,445)</u>
Trademark rights, end of year	<u>\$ 81,328</u>	<u>\$ 101,900</u>

6. **Deferred charges:**

	December 31	
	2004	2003
Financing costs, net book value	\$ 33,395	\$ 42,670
Label artwork, net book value	<u>21,657</u>	<u>23,550</u>
	<u>\$ 55,052</u>	<u>\$ 66,220</u>

7. **Bank indebtedness:**

The Company has an operating line of credit for up to \$750,000 with interest at prime plus 0.00% to 2.00%. Security for all debt is indicated in Note 8.

	December 31	
	2004	2003
Line of credit	\$ (340,000)	\$ -
Cash (bank balance, less outstanding cheques)	<u>(24,632)</u>	<u>32,403</u>
	<u>\$ (364,632)</u>	<u>\$ 32,403</u>

8. **Notes payable and long-term debt:**

	December 31	
	2004	2003
Term loan, repayable in monthly instalments of \$15,767 plus interest at prime plus 0.50% to 2.50%, due August, 2008.	\$ 693,728	\$ 882,932
Mortgage, repayable in monthly instalments of \$5,833 plus interest at prime plus 0.50% to 2.50%, due August 2008.	1,306,662	1,393,332
Mortgage, repayable in monthly instalments of \$4,668 plus interest at prime plus 0.50% to 2.50%, due June 2009.	1,092,247	289,958
Subordinated debt, repayable in monthly installments of \$8,000 plus interest at the floating base rate plus 3% plus a monthly administration fee of \$1,700. Monthly principal payments increase by \$1,000 every year until due, August 2007. Secured by a floating charge on all assets subject to prior charges in favour of existing secured lenders, assignment of insurance of \$250,000 on one officer.	<u>284,000</u>	<u>368,000</u>
	3,376,637	2,934,222
Less: Current portion	<u>(411,216)</u>	<u>(368,208)</u>
Long-term debt	<u>\$ 2,965,421</u>	<u>\$ 2,566,014</u>

The operating line of credit, term loan and mortgages are registered in the first position and are secured by a general security agreement on all equipment, collateral mortgage in the amount of \$1,900,000 on 200 Omand's Creek Blvd., Winnipeg, Manitoba, a collateral mortgage in the amount of \$1,500,000 on 10 Chevnigny Street, St. Albert, Alberta, assignment of fire insurance, and assignment of life insurance for \$500,000 on one officer.

9. Obligation under capital lease:

The Company has an obligation under a capital lease for equipment. The lease expires in 2007 as follows:

2005	\$	9,316
2006		9,316
2007		<u>787</u>
		19,419
Less: Current portion		<u>9,316</u>
Obligation under capital lease	\$	<u><u>10,103</u></u>

10. Share capital:

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Authorized-		
100,000,000 common shares		
Issued-		
6,934,398 common shares (2003 - 6,934,398)	\$ <u>1,291,535</u>	\$ <u>1,291,535</u>

	<u>2004</u>		<u>2003</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Opening balances	6,934,398	\$ 1,291,535	7,044,398	\$ 1,312,022
Shares purchased for cancellation	<u>-</u>	<u>-</u>	<u>(110,000)</u>	<u>(20,487)</u>
	<u>6,934,398</u>	<u>\$ 1,291,535</u>	<u>6,934,398</u>	<u>\$ 1,291,535</u>

In 2003, the Company purchased 110,000 shares for cancellation for consideration of \$42,900. The shares had a stated value of \$20,487, resulting in a charge to retained earnings of \$22,413.

11. Foreign currency:

The accounts noted below include amounts denominated in United States currency. The Canadian dollar equivalent is shown below:

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Cash	\$ <u>5,977</u>	\$ <u>901</u>
Accounts receivable	\$ <u>45,635</u>	\$ <u>77,686</u>
Accounts payable	\$ <u>4,263</u>	\$ <u>4,020</u>

The amount of foreign exchange gains included in the financial statements is approximately \$13,000 (2003 - gain of \$300).

12. Lease obligations:

The Company has lease commitments as follows:

2005	\$	24,736
2006		15,626
2007		<u>1,457</u>
	\$	<u>41,819</u>

13. Geographic information:

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Sales-		
Canada	\$ 8,369,260	\$ 8,415,254
United States	<u>1,229,324</u>	<u>1,720,167</u>
	\$ <u>9,598,584</u>	\$ <u>10,135,421</u>

14. Major customers:

Two customers represent approximately \$1,690,400 and \$963,100 of the Company's total revenue for 2004.

Two customers represent approximately \$1,561,600 and \$1,254,600 of the Company's total revenues for 2003.

15. Comparative figures:

Deferred charges previously included in current assets have been presented as long-term assets consistent with the current year financial statement presentation.

